

**District Court Funds of District No. 25
City of Lincoln Park, Michigan**

**Financial Report
with Supplemental Information
June 30, 2008**

District Court Funds of District No. 25

City of Lincoln Park, Michigan

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Independent Auditor's Report

To the Honorable Judges
of the 25th District Court
Lincoln Park, Michigan

We have audited the accompanying financial statements of the governmental activities, the Operating Fund, and the Agency Fund of the 25th District Court (the "District Court") of the City of Lincoln Park, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the District Court's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District Court's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the Operating Fund, and the Agency Fund of the 25th District Court of the City of Lincoln Park, Michigan as of June 30, 2008 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

December 16, 2008

District Court Funds of District No. 25

City of Lincoln Park, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the District Court Funds of District No. 25 (the "District Court"), City of Lincoln Park, Michigan's (the "City") financial performance provides an overview of the District Court's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the District Court's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- The last three operational budgets have maintained the 4 percent decrease in the budget established in fiscal year 2005.
- The District Court has consistently stayed within its operational budget each fiscal year.
- The District Court has policies and procedures in place to stay within the operational budget and is consistently looking for new ways to control the budget.

Using this Annual Report

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplemental information. The basic financial statements include information that presents two different views of the District Court:

- The first column of the financial statements includes information on the District Court's Operating Fund under the modified accrual method. This fund financial statement focuses on current financial resources and provides a more detailed view about the accountability of the District Court's sources and uses of these funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method.
- The third column is the government-wide financial statement column. This column provides both long-term and short-term information about the District Court's overall financial status. The statement of net assets and the statement of activities provide information about the activities of the District Court as a whole and present a longer-term view of the District Court's finances. These statements tell how these services were financed in the short term, as well as what remains for future spending.

District Court Funds of District No. 25

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required information that further explains and supports the information in the financial statements.

The Trust and Agency Fund accounts for the collection of amounts that are subsequently returned or paid to third parties. These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Governmental Activities and Trust and Agency Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets compared to the prior year:

	<u>Governmental Activities</u>		<u>Trust and Agency Activities</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 313,642	\$ 529,814	\$ 146,427	\$ 153,475
Noncurrent assets	<u>21,827</u>	<u>19,844</u>	<u>-</u>	<u>-</u>
Total assets	335,469	549,658	146,427	153,475
Current liabilities	266,450	510,962	146,427	153,475
Long-term liabilities	<u>147,020</u>	<u>145,582</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>413,470</u>	<u>656,544</u>	<u>146,427</u>	<u>153,475</u>
Net assets:				
Invested in capital assets	21,827	19,844	-	-
Unrestricted	<u>(99,828)</u>	<u>(126,730)</u>	<u>-</u>	<u>-</u>
Total net assets	<u>\$ (78,001)</u>	<u>\$ (106,886)</u>	<u>\$ -</u>	<u>\$ -</u>

The District Court's governmental assets and liabilities decreased by nearly 40 percent from a year ago and decreased the general fund deficit by \$28,885. At the end of the prior year, the District Court had a greater liability to the City for health insurance and other fringe benefits.

The District Court's Trust and Agency assets and liabilities remained fairly consistent and decreased approximately 4 percent from a year ago - decreasing from \$153,475 to \$146,427.

District Court Funds of District No. 25

City of Lincoln Park, Michigan

Management's Discussion and Analysis (Continued)

	Governmental Activities	
	2008	2007
Net assets - Beginning of year	\$ (106,886)	\$ 29,477
Revenues	1,431,721	1,424,618
Expenses	1,402,836	1,560,981
Change in net assets	28,885	(136,363)
Net assets - End of year	\$ (78,001)	\$ (106,886)

The District Court's governmental revenues remained consistent with the prior year, increasing by less than 1 percent.

The District Court's governmental expenditures decreased by approximately \$158,000, or 11 percent. The decrease is primarily due to the transfer of excess funds back to the City in the previous fiscal year for accumulated fund balance.

General Fund Budgetary Highlights

The District Court stayed below budget overall, resulting in total expenditures of \$13,541 below budget.

Contacting the District Court's Management

This financial report is intended to provide our citizens and customers with a general overview of the District Court's activities and to show the District Court's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the District Court directly.

District Court Funds of District No. 25

City of Lincoln Park, Michigan

Governmental Fund Balance Sheet/Statement of Net Assets (Deficit) June 30, 2008

	Operating Fund - Modified Accrual	Adjustments (Note 2)	Statement of Net Assets - Full Accrual
Assets			
Current assets - Cash and investments (Note 3)	\$ 313,642	\$ -	\$ 313,642
Capital assets (Note 4)	-	21,827	21,827
Total assets	<u>\$ 313,642</u>	<u>\$ 21,827</u>	<u>\$ 335,469</u>
Current Liabilities			
Current portion of long-term debt (Note 5)	\$ -	\$ 31,063	\$ 31,063
Due to the City of Lincoln Park	235,387	-	235,387
Total current liabilities	235,387	31,063	266,450
Long-term Debt - Net of current portion (Note 5)		147,020	147,020
Fund Balance - Unreserved	78,255	(78,255)	-
Total liabilities and fund balance	<u>\$ 313,642</u>	<u>99,828</u>	<u>413,470</u>
Net Assets (Deficit)			
Investment in capital assets		21,827	21,827
Unrestricted		(99,828)	(99,828)
Total net assets (deficit)		<u>\$ (78,001)</u>	<u>\$ (78,001)</u>

District Court Funds of District No. 25

City of Lincoln Park, Michigan

Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended June 30, 2008

	Revenues and Expenditures - Modified Accrual	Adjustments (Note 2)	Statement of Activities - Full Accrual
Revenue			
Contributions from City of Lincoln Park	\$ 1,411,930	\$ -	\$ 1,411,930
Other	311	-	311
Interest	19,480	-	19,480
Total revenue	1,431,721	-	1,431,721
Expenditures			
Salaries and wages	631,199	-	631,199
Fringe benefits	550,500	1,438	551,938
Supplies and postage	40,386	-	40,386
Telephone	12,495	-	12,495
Utilities	24,113	-	24,113
Maintenance	18,279	-	18,279
Services	71,539	-	71,539
Other	21,483	-	21,483
Depreciation	-	7,117	7,117
Capital outlay	28,251	(9,100)	19,151
Total expenditures	1,398,245	(545)	1,397,700
Excess of Revenue Over Expenditures	33,476	545	34,021
Other Financing Uses - Transfer to City of Lincoln Park	(5,136)	-	(5,136)
Changes in Fund Balance/Net Assets	28,340	545	28,885
Fund Balance/Net Assets (Deficit) - Beginning of year	49,915	(156,801)	(106,886)
Fund Balance/Net Assets (Deficit) - End of year	<u>\$ 78,255</u>	<u>\$ (156,256)</u>	<u>\$ (78,001)</u>

District Court Funds of District No. 25

City of Lincoln Park, Michigan

Fiduciary Fund

Statement of Assets and Liabilities

June 30, 2008

Agency Fund

Assets - Cash and investments (Note 3)

\$ 146,427

Liabilities

Due to City of Lincoln Park

\$ 86,061

Due to other governmental units

31,114

Refundable bonds

18,117

Other

11,135

Total liabilities

\$ 146,427

District Court Funds of District No. 25

City of Lincoln Park, Michigan

Notes to Financial Statements
June 30, 2008

Note I - Significant Accounting Policies

The accounting policies of the 25th District Court (the "District Court") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of significant accounting policies:

Reporting Entity

The District Court is governed by two elected judges. The District Court is responsible for traffic and moving violations, certain civil matters, and misdemeanors within the limits of the City of Lincoln Park, Michigan.

Fund Accounting

The accounts of the District Court are organized on the basis of funds, each of which is considered a separate accounting entity. The various funds are categorized as follows:

- **Governmental Fund**

Operating Fund - The Operating Fund contains the records of the ordinary activities of the District Court that are not accounted for in another fund. The financial activities of the fund are limited to collection of subsidies from the City of Lincoln Park, Michigan (the "City") and payment of expenditures including payroll costs.

- **Fiduciary Fund**

Agency Fund - The depository bond and trust accounts of the District Court are accounted for in the Agency Fund. The financial activities of the fund are limited to collection of amounts that are subsequently returned or paid to third parties. The fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

District Court Funds of District No. 25

City of Lincoln Park, Michigan

Notes to Financial Statements
June 30, 2008

Note I - Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District Court's Operating Fund is budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities in the current period. For this purpose, the District Court considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences are recorded only when payment is due.

In addition to presenting information for the Operating Fund on the modified accrual basis (as budgeted), the financial statements present information for the District Court using the economic resources measurement focus and the accrual basis of accounting. This information is intended to demonstrate the degree to which taxpayers have funded the full cost of services received. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The District Court has elected not to follow private sector standards issued after November 1, 1989 for its full accrual presentation.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - The District Court considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Investments are recorded at fair value as of June 30, 2008, based on quoted market prices.

District Court Funds of District No. 25

City of Lincoln Park, Michigan

Notes to Financial Statements
June 30, 2008

Note I - Significant Accounting Policies (Continued)

Capital Assets - Capital assets are defined by the District Court as assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The District Court building is owned by the City of Lincoln Park, Michigan and is not reported in these financial statements.

Capital assets are depreciated using the straight-line method over the following useful lives:

Furniture and fixtures	3-10 years
Law library	5 years

Compensated Absences (Vacation and Sick Leave) - It is the District Court's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund only for employee terminations as of year end.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

District Court Funds of District No. 25

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2008

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

As discussed in Note 1, the Operating Fund is presented on the modified accrual basis of accounting, and the District Court as a whole (which only consists of its Operating Fund) is presented on the full accrual basis. The following is a reconciliation of fund balance on the modified accrual basis of accounting to net assets presented on the full accrual basis:

Total Fund Balance - Modified Accrual Basis	\$ 78,255
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Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources and are not reported in the funds	21,827
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Compensated absences are not recorded until due and are not reported in the funds	<u>(178,083)</u>
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Total Net Assets - Full Accrual Basis	<u>\$ (78,001)</u>
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The following is a reconciliation of the changes in fund balance on the modified accrual basis to the change in net assets on the full accrual basis:

Net Change in Fund Balance - Modified Accrual Basis	\$ 28,340
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Amounts reported in the statement of net assets are different because:

Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(1,438)
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Capital assets used in governmental activities are not considered financial resources; as such, depreciation recorded on those assets is not considered an activity of the funds	(7,117)
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Governmental funds report capital outlays as expenditures in the statement of activities; these costs are allocated over their estimated useful lives as depreciation	<u>9,100</u>
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Change in Net Assets of Governmental Activities	<u>\$ 28,885</u>
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District Court Funds of District No. 25

City of Lincoln Park, Michigan

Notes to Financial Statements
June 30, 2008

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The District Court has designated one bank for the deposit of its funds. The investment policy adopted by the District Court in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The District Court's deposits and investment policies are in accordance with statutory authority.

The District Court's cash and investments are subject to two types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the District Court's deposits may not be returned to it. The District Court does not have a deposit policy for custodial credit risk. At year end, the District Court had \$158,396 of bank deposits (certificates of deposit, checking, and savings accounts) that were covered by \$100,000 of federal depository insurance. The District Court believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District Court evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Risk - State law limits certain investments to the top two ratings issued by nationally recognized statistical rating organizations and the District Court has no investment policy that would further limit its investment choices. At June 30, 2008, the District Court holds \$325,000 of investments in bank investment pools, which are not rated.

District Court Funds of District No. 25

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Capital Assets

Capital asset activity of the District Court's governmental activities was as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Depreciable capital assets:				
Furniture and equipment	\$ 491,758	\$ -	\$ -	\$ 491,758
Law library	86,000	9,100	9,100	86,000
Subtotal	577,758	9,100	9,100	577,758
Less accumulated depreciation:				
Furniture and equipment	491,064	694	-	491,758
Law library	66,850	6,423	9,100	64,173
Subtotal	557,914	7,117	9,100	555,931
Net capital assets	<u>\$ 19,844</u>	<u>\$ 1,983</u>	<u>\$ -</u>	<u>\$ 21,827</u>

Capital assets, including library books, are recorded at cost. Depreciation expense was \$7,117 for the year ended June 30, 2008.

Note 5 - Long-term Debt

Outstanding Debt

Debt outstanding of the District Court as of June 30, 2008 consisted of \$178,083 of accumulated employee benefits (compensated absences). The accumulated employee benefits represent the estimated liability to be paid governmental fund-type employees under the District Court's sick and vacation policy. The portion that is estimated will be paid currently, if any, has been recorded as a liability in the Operating Fund. Under the District Court's policy, employees earn sick and vacation time based on time of service with the District Court.

District Court Funds of District No. 25

City of Lincoln Park, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the District Court for the year ended June 30, 2008:

	Compensated Absences
Balance - July 1, 2007	\$ 176,645
Increase in employee benefits	<u>1,438</u>
Balance - June 30, 2008	<u><u>\$ 178,083</u></u>

Note 6 - Budget Information

The budget of the Operating Fund is prepared by the District Court management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2008 has not been calculated. The budget was not amended during the current year.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison to the budget as adopted by the City Council is shown in the required supplemental information. There were no significant amounts in excess of budget.

District Court Funds of District No. 25

City of Lincoln Park, Michigan

Notes to Financial Statements
June 30, 2008

Note 7 - Postemployment Benefits

The District Court provides healthcare benefits to all full-time employees upon retirement. Currently, 16 retirees are eligible. The District Court includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participant. The District Court purchases Medicare supplemental insurance for retirees eligible for Medicare. The plan is a cost-sharing multiple-employer plan administered through the City. The plan does not issue a standalone financial report; however, the plan is included in the City's financial statements as a trust fund. Expenditures for postemployment healthcare benefits are recognized when billed by the City. To date, the City has billed for current employees, but not for retirees. Actuarial information on the retiree healthcare plan is not available specifically for the District Court employees or judges.

Note 8 - Defined Benefit Pension Plan

The District Court has no individual pension plan for its employees or judges. The District Court employees are participants in the City of Lincoln Park Municipal Employees' Retirement System. The judges are covered under the State of Michigan Retirement Plan, a contributory defined benefit pension plan. Pension contributions to the Employees' Retirement System, which were charged to the Operating Fund, were \$153,973 in 2008. Pension contributions for the District Court judges are collected as court costs and remitted to the State through the District Court's Agency Fund. Actuarial information on the two retirement plans is not available specifically for the District Court employees or judges. Trend information for the full systems is contained in the City of Lincoln Park and State of Michigan's audited financial statements.

Note 9 - Risk Management

The District Court is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District Court, through the City, has purchased commercial insurance for medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

District Court Funds of District No. 25

City of Lincoln Park, Michigan

Notes to Financial Statements
June 30, 2008

Note 9 - Risk Management (Continued)

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Required Supplemental Information

District Court Funds of District No. 25

City of Lincoln Park, Michigan

Required Supplemental Information

Budgetary Comparison Schedule - Operating Fund

Year Ended June 30, 2008

	Prior Year Actual - Modified Accrual	Current Year - Modified Accrual			Variance Favorable (Unfavorable)
		Originally Adopted Budget	Amended Budget	Actual	
Revenue					
Contributions from City of Lincoln Park	\$ 1,411,786	\$ 1,411,930	\$ 1,411,930	\$ 1,411,930	\$ -
Other	504	-	-	311	311
Interest	12,328	-	-	19,480	19,480
Total revenue	1,424,618	1,411,930	1,411,930	1,431,721	19,791
Expenditures					
Salaries and wages	614,685	601,069	601,069	631,199	(30,130)
Fringe benefits	527,747	613,337	613,337	550,500	62,837
Supplies and postage	33,757	29,000	29,000	40,386	(11,386)
Telephone	11,510	13,500	13,500	12,495	1,005
Utilities	25,733	25,500	25,500	24,113	1,387
Maintenance	9,013	20,000	20,000	18,279	1,721
Services	63,686	70,280	70,280	71,539	(1,259)
Other	19,359	27,100	27,100	21,483	5,617
Capital outlay	17,053	12,000	12,000	28,251	(16,251)
Total expenditures	1,322,543	1,411,786	1,411,786	1,398,245	13,541
Excess of Revenue Over Expenditures	102,075	144	144	33,476	33,332
Other Financing Uses - Transfer to City of Lincoln Park	(200,000)	-	-	(5,136)	(5,136)
Change in Fund Balance	(97,925)	144	144	28,340	28,196
Fund Balance - Beginning of year	147,840	49,915	49,915	49,915	-
Fund Balance - End of year	<u>\$ 49,915</u>	<u>\$ 50,059</u>	<u>\$ 50,059</u>	<u>\$ 78,255</u>	<u>\$ 28,196</u>